

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 57721

**DOUGLAS COUNTY, WASHINGTON**

January 1, 1995 Through December 31, 1995

Issue Date: September 13, 1996

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**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Board of Commissioners  
Douglas County  
Waterville, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Douglas County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Douglas County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

June 26, 1996

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure  
At The Financial Statement Level**

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Board of Commissioners  
Douglas County  
Waterville, Washington

We have audited the general-purpose financial statements of Douglas County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

June 26, 1996

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Schedule Of Findings**

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1. The County Should Improve Internal Controls Over Cash Receipts At The Departmental Level

During our review of cash receipting procedures at various county departments, we noted the following internal control weaknesses:

- a. Improper segregation of duties exist. The same individual receipts the funds, records the deposits, makes the deposits, and reconciles the receipts without any independent review at the Land Services, Fair, and the Auditor's Offices.
- b. Receipts are kept in unsecured areas at the Sheriff's, Land Services, and Mental Health Offices.
- c. Receipts are not deposited in a timely manner at the Sheriff's and Land Services Offices.
- d. Redi-form receipts are used at the District Court and Land Services Offices. Redi-form receipts do not allow for the numeric sequence of these receipt forms to be under management's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- e. Checks received for payment are not restrictively endorsed immediately upon receipt at the Sheriff's and Land Services Offices.
- f. The Sheriff's Office does not apply internal controls to payments received through the mail.
- g. The Land Services Office does not mark the mode of payment on the receipt. Without the notation of the mode of payment, no assurance can be made that receipts were deposited intact.

RCW 43.09.240 states:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

In addition, the *Budgeting, Accounting and Reporting System (BARS)* manual, Volume 1, Part 3, Chapter 1, pages 22-24 states in part:

Internal control systems and all other significant events are to be clearly documented, and the documentation is to be readily available for examination.

Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of the resources to be assigned and maintained.

The absence of adequate internal controls over cash receipts increases the risk errors and/or irregularities could occur and not be detected in a timely manner.

These conditions occurred because the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the county strengthen internal controls over cash receipting. We further recommend the county establish policies and procedures governing cash receipting at the decentralized locations.

#### Auditee's Response

*It is my understanding that the audit division is already in receipt of the Cash Receipting Draft Policies as they have been developed by the Douglas County Treasurer. It was also my impression that these policies were reviewed by your office to determine compliance with BARS manual, Volume 1, Part 3, Chapter a, pp. 22-24 as well as with RCW 43.06.240.*

*I believe these policies are, as a matter of law, the responsibility of the Treasurer's office. However, the governing board is prepared to order swift compliance with these policies by every department under its control when implemented by the Treasurer and found acceptable to your office. Subsequent to these actions, I am confident your next audit will find full compliance in this area.*

#### Auditor's Concluding Remarks

We appreciate the county's prompt response to our finding. The cash receipting policies could not be used to determine compliance with the criteria referenced, as they were not drafted until the issue was raised. In addition, our office received a copy of the policies after completion of the audit fieldwork. However, it appears that the concerns noted in the finding are being adequately addressed. We will review the county's progress in this area during our next audit.

#### 2. The County Should Implement Cash Receipt Internal Controls In The Animal Control Department

During our audit of the Douglas County Animal Control Department we noted material internal control weaknesses in the cash receipting system as follows:

- a. Numerous animal licenses and intake forms (completed when an animal is captured and eventually returned to the owner) could not be located. These forms act as the initial receipt form (transaction source document).
- b. Cash receipts are not remitted to the county treasurer in a timely manner.
- c. Treasurer transmittals are not retained after a deposit has been made.
- d. The department improperly allows a company outside the control of the county to receive payments on its behalf without a formal contract.
- e. Cash receipts are kept in an unlocked desk drawer in an area accessible to transportation service employees and often unsupervised by department personnel.



RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees or other persons.

The accounts shall show the receipt, use, and disposition of all public property . . . all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . . (Emphasis added.)

In addition, the *Budgeting, Accounting and Reporting System* (BARS) manual, Volume 1, Part 3, Chapter 1, pages 22-24 states in part:

Internal control systems and all other significant events are to be clearly documented, and the documentation is to be readily available for examination.

Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained.

The absence of adequate internal controls over the cash receipts increases the risk errors and/or irregularities could occur and not be detected in a timely manner.

We recommend the Douglas County Animal Control Department implement internal control procedures over the cash receipting function. We further recommend the department complete a contract with the private company performing cash receipting functions for the department.

#### Auditee's Response

*The audit team found the Animal Control Department in a state of transition from one director to another. One of the reasons for the change in directors was the concern of the governing board for the handling of cash within the department as well as for the timely transfer of Animal Control Department funds to the Treasurer's Office. Implementation of the Treasurer's cash receipting policies and compliance with them by Animal Control should adequately address the recommendation in this area. Completion of a contract with the private company performing cash receipting functions for Animal Control is a point well taken by the audit and will be achieved as well.*

#### Auditor's Concluding Remarks

It appears that the concerns noted in this finding are being adequately addressed. We will review the county's progress in this area during our next audit.

#### 3. The County Should Consider The Administrator Of The Regional Support Network As An Employee And Report His Earnings To Appropriate State And Federal Agencies

The county inappropriately paid an employee, the administrator of the Regional Support Network, on a personal service contract. The employee, a PERS I retiree, was not reported to the Department of Retirement Systems as working in an eligible position.

RCW 50.04.140 states in part:

. . . remuneration for services rendered by an individual is reportable employment unless it can be shown that the individual meets all (emphasis ours) three of the tests of "independence" shown below:

. . . (1)(a) Such individual has been and will continue to be free from control or direction over the performance of such service, both under his or her contract of service and in fact; and

(b) Such service is either outside the usual course of business for which such service is performed, or that such service is performed outside of all the places of business of the enterprises for which such service is performed; and

(c) Such individual is customarily engaged in an independently established trade, occupation, profession, or business of the same nature as that involved in the contract service . . .

In addition, RCW 41.40.023 states in part:

Membership in the retirement system shall consist of all regularly compensated employees . . . with the following exceptions:

(12) Plan I retirees employed in eligible positions on a temporary basis for a period not to exceed five months in a calendar year: PROVIDED, if such employees are employed for more than five months in a calendar year in an eligible position they shall become members of the system prospectively . . .

Internal Revenue Service, Circular E, Publication 15, also states, that if the employer "has the legal right to control the method and result of the service" the individual is an employee.

We found that the individual, considered to be an independent contractor by the county, clearly did not meet all of the tests described in the above paragraphs.

The county failed to report the wages and hours and consider the individual as an employee because it was unaware of the above mentioned requirements.

Failing to properly recognize the individual as an employee could expose the county to liability for unemployment claims, unpaid Federal Insurance Contribution Act (FICA) taxes, withheld federal income taxes, and retirement contributions.

We recommend the county recognize as an employee, including proper reporting to state and federal agencies, any individual who performs services for the county and does not meet the above criteria for an independent contractor.

#### Auditee's Response

*When the current position of Administrator was first established it was viewed quite differently from the tasks and responsibilities it now includes. It was the position of the governing board at that time to contract the services necessary to administer the various provider contracts and perform necessary reporting to D.S.H.S. Since then the needs of the governing board and the needs of the R.S.N. have changed over time. The governing board was made aware of the need to reassess employment status of this position earlier in 1996. Following discussion with legal counsel, the governing board determined that job reporting, place of work, and supervision of this position had changed sufficiently to warrant classification as a full time employee with all attendant earnings reporting. This was*

*accomplished effective June 1, 1996. I am pleased to report the county had corrected this oversight prior to completion of the audit and that the county is in compliance in this matter.*

#### Auditor's Concluding Remarks

We appreciate the county's prompt response to our finding. We encourage the county to contact the appropriate state and federal agencies to determine the amount of any required payment. The result of this correspondence and the administrator's employment status will be reviewed during our next audit.

4. The County Should Ensure That Restricted County Road Funds Are Used For County Road Purposes

Our audit disclosed that the county utilized revenues of the County Road Fund to cover operating expenditures that were not directly related to authorized county road purposes. In 1996, the county budgeted an operating transfer from the County Road Fund to the Land Services Fund for \$100,000 to cover Land Services Fund operating expenses. During 1995, the county paid for costs incurred by the Land Service Fund with restricted county road revenues.

The *Revised Code of Washington* (RCW) 36.82.020 states:

Any funds accruing to and to be deposited in the county road fund arising from any levy in any road district shall be expended for proper county road purposes.

RCW 43.09.210 further states in part:

All services rendered by . . . one department . . . to another, shall be paid for at its true and full value by the department . . . receiving the same, and no department shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

RCW 36.82.040 allows counties to divert county road tax revenues by budgeting them into a separate and identifiable account within the Current Expense Fund; however, the county elected not to utilize this option.

As a result of the conditions described above, land services operations were financed by tax revenues appropriated for county road purposes.

We recommend county officials ensure that operations for each fund are financed by appropriations for that fund made according to statutory requirements. We further recommend that the county either apply the statutory requirements to divert the county road tax revenues already diverted or return the revenues to the County Road Fund.

#### Auditee's Response

*This has been an area of continuing disagreement between the county and the audit division since the audit period January 1, 1994 to December 31, 1994. The disagreement stems from the interpretation of what is and what is not a county road purpose.*

*I was pleased that while there may remain some dispute as to interpretation, discussions regarding accounting for services performed by the Land Services Division for County Road have been fruitful. It is my belief these discussions have provided an affective means for accounting for these services in order that all expenditures of County Road funds for transportation planning and capital facilities*

*planning may be properly reported and effectively shown as the road purposes they truly are. I am grateful for the efforts made by the audit team in their search for this solution to a difficult problem. They have been most helpful and I have every confidence the next audit will find the county in full compliance in this area.*

#### Auditor's Concluding Remarks

We also felt that the discussions provided some clarification and alternatives that were rewarding. We look forward to reviewing procedures implemented during our next audit.

#### 5. The County Should Improve Internal Controls Over Petty Cash

During our review of the petty cash funds at the various county departments, we noted the following weaknesses in internal controls:

- a. With the exception of the Regional Support Network and county road accounts, resolutions do not name a custodian of each account.
- b. The account balance established by the following departments does not agree to the amount authorized by the commissioner's resolution: Assessor's Office, Auditor's Office, Parks Department, Veteran's Relief, and Mental Health.
- c. Petty cash accounts are not being reconciled to the authorized balance nor being replenished on a timely basis. This occurred at the Mental Health, Parks, Veteran's Relief, and Auditor's Offices.
- d. Petty cash funds at the following locations did not reconcile to the authorized fund balance at the time of our surprise cash counts: NCW District Fair, Mental Health, District Court, Assessor's Office, and Auditor's Office.

The *Budgeting, Accounting and Reporting System (BARS)* manual, Volume 1, Part 3, Chapter 3, pages 23-24 states in part:

... The governing body or its delegate must appoint one custodian of each petty cash account . . . (Emphasis added.)

... The governing body must include the authorized amount of all such petty cash in the local government's balance sheet.

... If the petty cash is disbursed, it must be replenished at least monthly . . .

... At the time of replenishment, the custodian should ensure that the balance remaining in petty cash, together with the amount of the replenishment voucher, equals the authorized imprest account . . .

The absence of adequate internal controls over the petty cash accounts increases the risk errors and/or irregularities could occur and not be detected in a timely manner.

These conditions occurred because the county did not implement the minimum requirements for establishment and operation of petty cash accounts as required.

We recommend the county improve internal controls over petty cash funds by implementing the procedures for establishment and operation of petty cash accounts as prescribed in the BARS manual.

Auditee's Response

*The governing board receives this finding and responds with assurance of a full review of each account. Full implementation of petty cash procedures as prescribed by the BARS manual will be accomplished for each account determined by the board as continuing to be necessary.*

Auditor's Concluding Remarks

We appreciate the county's thorough response to our finding. The implementation of petty cash procedures will be reviewed during our next audit.

We wish to thank the county officials and personnel for their assistance and cooperation during the audit. We enjoy the positive working relationship.

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional  
Information**

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Board of Commissioners  
Douglas County  
Waterville, Washington

We have audited the accompanying general-purpose financial statements of Douglas County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Douglas County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Douglas County.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 26, 1996, on our consideration of the county's internal control structure and a report dated June 26, 1996, on its compliance with laws and regulations.

Brian Sonntag  
State Auditor

June 26, 1996

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Additional Information Regarding Audits Of Special Purpose Districts Included In  
Trust And Agency Funds**

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The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.



### Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 districts associated with the county's financial statements are:

East Wenatchee Water District  
Port of Douglas County  
Douglas County Sewer District  
Greater Wenatchee Irrigation District  
Wenatchee Reclamation District  
Hospital District No. 1  
Douglas County Fire Protection District No. 2

### Category 2 Districts

All special purpose districts which had total revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts  
Public Hospital Districts  
Irrigation Districts  
Water Districts  
Sewer Districts  
Water/Sewer Districts  
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

Fire Protection District No. 1  
Fire Protection District No. 4  
Fire Protection District No. 5  
Hospital District No. 2  
Hospital District No. 3  
Hospital District No. 6  
Bridgeport Bar Irrigation  
Bridgeport Irrigation  
Palisades Irrigation

### Category 3 Districts

All special purpose districts which had total revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

- Fire Protection District No. 3
- Fire Protection District No. 6
- Fire Protection District No. 7
- Fire Protection District No. 8
- Cemetery District No. 1
- Cemetery District No. 2
- Cemetery District No. 3
- TV Improvement District

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Board of Commissioners  
Douglas County  
Waterville, Washington

We have audited the general-purpose financial statements of Douglas County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 26, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Douglas County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

June 26, 1996

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Board of Commissioners  
Douglas County  
Waterville, Washington

We have audited the general-purpose financial statements of Douglas County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 26, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Cash management

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

June 26, 1996

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements  
Applicable To Major Federal Financial Assistance Programs**

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Board of Commissioners  
Douglas County  
Waterville, Washington

We have audited the general-purpose financial statements of Douglas County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 26, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to vouchers, right-of-way, extensions, and sampling and testing of project materials as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Douglas County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

June 26, 1996

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Board of Commissioners  
Douglas County  
Waterville, Washington

We have audited the general-purpose financial statements of Douglas County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 26, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated June 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated June 26, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.



Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Cash receipts
  - Receivables
  - Accounts payable
  - Purchasing
  - Payroll
  - General ledger
- **General Requirements**
  - Political activity
  - Davis-Bacon Act
  - Civil rights
  - Relocation assistance and real property acquisition
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
  - Types of services
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Cash disbursements
  - Receiving
  - Inventory control
  - Property, plant, and equipment
- **General Requirements**
  - Cash management
- **Specific Requirements**
  - Eligibility

During the fiscal year ended December 31, 1995, the county expended 80 percent of its total federal financial assistance under a major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

June 26, 1996

**DOUGLAS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Status Of Prior Findings**

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The findings contained in the prior audit report were resolved as follows:

1. Douglas County Should Establish And Implement A Uniform Credit Card Policy

*Resolution: The county implemented a credit card policy and began utilizing the American Express Corporate Card system.*

2. The County Should Improve Controls Over Contract Payments

*Resolution: The Regional Support Network has addressed this condition. No overpayments to contractors were noted this audit period.*

3. The County Should Implement Existing Billing And Collection Procedures For Client Services Provided By The Behavioral Health Center

*Resolution: The Behavioral Health Clinic has addressed this condition by implementing policies and procedures to ensure all clients are billed and accounts are pursued for collection.*

4. The County Should Ensure That Restricted County Road Funds Are Used For County Road Purposes

*Resolution: The county did not resolve this issue in 1995. However, the county will be addressing the issue in 1996. Please see audit response in the Schedule of Findings.*